



November 3, 1997

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**Subject:** Comments on [Addendum to the Draft Fourth Northwest Electric Power and Conservation Plan](#)

Dear Steve:

The Council's Addendum to the Draft Fourth Northwest Power Plan is a very valuable contribution to the region's efforts to implement the recommendations of the Comprehensive Review. As you correctly note, the Review's recommendations in many areas were necessarily broad. The states are now wrestling with the practical application of those recommendations. These recommendations were a formative influence on [Governor Locke's Statement of Principles for restructuring the electric power industry](#). The Council's first-rate work in the Addendum will help us navigate the challenges associated with restructuring the retail market in Washington in a way that adheres to those principles. It also offers thoughtful guidance to the region as a whole in our effort to retain the benefits of the federal hydropower system. Our comments focus on several areas of particular concern to the Washington Department of Community, Trade, and Economic Development (CTED) that are likely to figure prominently in state deliberations regarding the structure of Washington's retail electric market.

### Preserving the Value of Northwest Resources

The Council Draft Addendum drives home a crucial point for a low-cost state like Washington: stranded costs and "windfall profits" are two sides of the same coin. Much of the debate nationally has focused on the case where the market value of generation is less than the book value. But, as EIA's price analysis (flawed though it may be) vividly indicates, that is generally not the case in this region. In Northwest retail markets, the challenge of allowing consumers to retain the benefits of the below-market resources for which they have paid is a much bigger issue. Since shareholders and consumers have shared the business risk associated with existing investments, it is appropriate for shareholders and consumers to share both the costs and the yields of those investments.

From an equity perspective, this issue poses the single most important design challenge facing the low-cost Northwest states as they restructure their retail markets. If we are to avoid EIA's verdict of prices rising toward a national average, we will have to find a way to cement the relationship between Northwest consumers and low-cost Northwest resources. And the key to that effort will be ensuring that we collectively embrace the full cost of the FCRPS, so that we may reap its future benefits. States can help that effort in a number of ways, including but not limited to:

- Clarifying retail utilities' authority to recover from their retail customers the stranded costs that they incur pursuant to their wholesale contracts with BPA;
- Clarifying the nature of the retail market and thereby reducing retail utilities' uncertainty over who they will serve and what their obligations to serve will be; and
- Improving the ability of customers to aggregate for priority access to federal resources, and thereby expanding the in-region market for federal resources.

As the Council refines the Draft Plan, it may be helpful to further explore what actions states can take to improve the prospects for a successful effort to secure the benefits of the federal system for all Northwest consumers.

### Assuring Access to Critical Information

A retail energy service market that is both efficient and reflects consumers' values requires that consumers have access to credible, usable information about suppliers and their products. It also requires assurance that competing energy service suppliers have equal access to information concerning customers' demand characteristics. Even in a regulated environment, it is beneficial for customers to understand the attributes of their electricity suppliers and their product. In a competitive environment, it is essential.

Pilot programs for both Puget Sound Energy and Portland General Electric have explored the need for standardized disclosure to provide customers with information on price and terms of power service, price volatility, fuel mix and environmental characteristics. Disclosure must provide for simple, apples to apples comparisons if it is to facilitate informed choice, particularly by small consumers. Extensive focus group research conducted for the National Council on Competition and the Electric Industry confirms that clear, easy-to-compare information in these four categories is an essential prerequisite to meaningful choice.

There is a very important distinction between marketing and clear, objective consumer information. The need for the latter implies a critical and ongoing public information function. That function includes developing standardized disclosure formats and ensuring their correct use. And while customers need fair, credible product information, they also need more general information about the nature and causes of changes occurring in the electric power industry. Before citizens exercise informed choice of power supply, they should have an opportunity to exercise informed choice on the kind of industry they want and the rules within which that industry will operate. This, too, implies an important public education function. We welcome the Council's continued involvement and partnership in providing that information to the region's citizens.

### Implementation of the Electric Power System's Public Purposes

A strong commitment to energy efficiency, renewable energy, and low-income services is at the heart of the state's energy policy and the Governor's Principles for restructuring. We believe the Council could make an important contribution to the attainment of these purposes by helping to develop mechanisms that focus on *achievement*. The Council's Plan has historically focused on regional conservation targets derived from least-cost planning. As such, it provided a clear and compelling goal: minimize costs by purchasing saved power where it is more economical than generated power.

In contrast, the Comprehensive Review's standard for public purposes is an investment standard. As a practical matter, it is probably important to maintain a minimum investment standard because achieving public purposes requires competitively neutral investment. However, *no one's* ultimate goal is the outlay itself. Achievement and expenditure are clearly linked, but we are ultimately much more interested in the former. We doubt that there is much controversy on that point.

Verifying achievement is obviously not just a matter of counting money. It requires systematic analysis. It requires credible monitoring and evaluation. It requires a straightforward mechanism that allows consumers to know that their collective investments in efficiency, renewables, and low-income services are well-managed and producing results. In recognition of that need, the Comprehensive Review recommended the formation of a Regional Technical Forum, as Congress stipulated over two years ago. We are open to other ideas on how to get the job done, but in the absence of any, it's time to get this show on the road.

Utilities that are committed to the accomplishment of these purposes should welcome the prospect of an objective certification of results. If it proves impossible to develop a cooperative approach that provides accurate, credible verification of public purpose achievement, the Council should explore other ways to administer these funds that provide greater accountability. These functions are absolutely critical and enjoy widespread support. As climate stabilization emerges an urgent national and global priority, the value of investments that reduce growth in carbon emissions becomes even greater. Consumers should be given every assurance, backed with credible analysis, that they are getting their money's worth from these investments.

We also encourage the Council and the Transition Board to follow up on the Comprehensive Review's recommendation that we seek a federal back-up for public purpose investment, to the extent that the Review's public purpose recommendations are not otherwise being implemented. We expect continuing efforts on the part of the Transition Board to follow through on this recommendation.

### Role of the Northwest Power Planning Council

The Addendum suggests some future roles that would provide added value to many including the region's electric power system operators; policy-makers; local utilities and aggregators. We would like to highlight one role in particular outlined in the Addendum, "Providing up-to-date information on future electricity demand, new generating and efficiency technologies, system operations and market forecasts."

Many policymakers in Washington State, and elsewhere in the region, are hesitant to pursue full retail electric power competition for all electricity customers. If an electric power industry model unfolds that does not provide choice to all consumers, but instead relies on regulated utilities to provide power, then the Council's traditional role in analyzing resource cost-effectiveness will remain relevant for purposes of resource acquisition. Bonneville is no longer acquiring resources for the region. However, many utilities may be doing so and many small utilities may be responsible for meeting load growth through non-Bonneville purchases for the first time. We would continue to value the Council's objective resource analysis as a critical reference point for Washington's utilities, public interest groups and public policy-makers. Even in a full retail choice model, the Council's analysis of resource options and their relative costs will be a useful reference point.

The Council's analyses for future conservation and renewable resources opportunities will be of exceptional value regardless of the future structure of the industry. Legislators, state agencies, customers, and industry associations will all be looking for this type of benchmark for evaluating public purpose expenditures and accomplishments.

As a general proposition, the goals of the Regional Act are no less appropriate today than when they were written. The Council is still charged with the achievement of exceedingly important goals. And, increasingly, it must achieve them in uncharted waters. Far from diminishing the role of the Council, this suggests a large and growing need for the kind of innovative leadership for which the Council is well-known.

### Public Trust and Confirmation of the Marketplace

Public trust in restructuring will depend on knowing that all customers are sharing costs and benefits in a restructured environment and that the electric power system is meeting public policy goals. Tracking data during the transition and during the initial phases of competition can contribute to developing that trust. We agree with the Review's recommendation that some of the most important data to collect include tracking of average costs of energy services paid by different classes of consumers and aggregate information on trends in energy consumption. Again, this data will be valuable in any industry restructuring scenario.

The Council and its staff have contributed a vast amount of energy and thoughtful analysis into the Comprehensive Review and thus to the states' restructuring debates. The Addendum is yet another important contribution.

Thank you for the opportunity to comment.

Sincerely,

K.C. Golden  
Assistant Director